Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Hollingsworth	Analyst:	Darrine Distefano	Bill Number:	SB 1823
Related Bills:	See Legislative History	Telephone:	845-6458	Amended Date:	March 22, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones & Manufacturing Enhancement Areas/Delete Definition of "Agency" & Insert Definition of "Department" To Refer To Department of Housing & Community Development

SUMMARY

This bill would delete the term "agency" and replace that term with "department" under the Enterprise Zone (EZ) Act.

SUMMARY OF AMENDMENTS

The March 22, 2004, amendments removed the provisions that would have allowed the Department of Housing and Community Development (DHCD) to designate eight additional EZs and inserted the provisions addressed in this analysis.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to update the current law to reflect the correct department that is administering the EZ Act.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative on or after January 1, 2005.

POSITION

Pending.

ANALYSIS

<u>STATE LAW</u>

Beginning in 1984, the Technology, Trade, and Commerce Agency (TTCA) administered the EZ Act, along with the Local Agency Military Base Recovery (LAMBRA) Act and the Targeted Tax Area (TTA) program. Due to the elimination of funding for TTCA by the 2003-04 Budget Act, the administration of EZ Act was transferred to DHCD.

Under the EZ Act within the Government Code, existing state law provides for the designation of EZs and two Manufacturing Enhancement Areas (MEAs). Using specified criteria, the former TTCA designated EZs and MEAs from the applications received from the governing bodies. Each MEA is binding for 15 years beginning January 1, 1998. EZs are designated for 15 years (except EZs designated before 1990 and that meet certain criteria may be extended to 20 years), and TTCA had designated 39 of the 42 EZs authorized under existing law. When an EZ expired or was dedesignated as a result of a failing audit by TTCA, TTCA was authorized to designate another in its place to maintain a total of 42 EZs.

Board Position:			Department Director	Date
______ S	______ NA	______ NP		
______ SA	______ O	______ NAR	Gerald H. Goldberg	4/23/04
______ N	______ OUA	__X__ PENDING		

Under the Revenue and Taxation Code (R&TC), existing state law provides special tax incentives for taxpayers conducting business activities within an EZ and MEA. The EZ incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, specified employees of businesses operating in an EZ may claim a wage credit. A hiring credit is allowable to businesses located in an MEA for a percentage of wages paid to qualified employees.

THIS BILL

This bill would update the Government Code by removing references to "agency" (TTCA) and replace those references with "department" (DHCD).

IMPLEMENTATION CONSIDERATIONS

Besides the EZ Act, DCHD is currently responsible for administering the LAMBRA and the TTA. The author may wish to amend these sections under the Government Code to reference DCHD. This would maintain consistency in the code for all the economic development area programs and eliminate confusion for individuals.

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 305 (Ducheny, Stat. 2003, Ch. 593,) transferred the duties of the Enterprise Zone (EZ) Act from the TCA to the DHCD within the Business, Transportation, and Housing Agency.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 49 economic development areas (that include EZs (39), MEAs (2), Local Agency Military Base Recovery Areas (7), and Targeted Tax Area (1)), New York has 71, Florida 51, Illinois 93, and Michigan 33.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

LEGISLATIVE STAFF CONTACT

Darrine Distefano	Brian Putler
Franchise Tax Board	Franchise Tax Board
845-6458	845-6333
darrine.distefano2@ftb.ca.gov	brian.putler@ftb.ca.gov